

STATE BOARD OF FINANCE
June 12, 2018 – 1:00 PM
Summary Minutes

Location:

Via videoconference at the following locations:

Old Assembly Chambers	Governor's Office Conference Room
Capitol Building, Second Floor	555 E Washington Avenue, Suite 5100
101 N. Carson Street	Las Vegas, NV 89101
Carson City, NV 89701	

Governor Sandoval called the meeting to order at 1:00 P.M.

Board members present:

Governor Brian Sandoval – Carson City
Treasurer Dan Schwartz – Las Vegas
Controller Ron Knecht – Carson City
Teresa Courier – Carson City

Others present:

Tara Hagan – Chief Deputy Treasurer
Lori Chatwood – Deputy Treasurer – Debt
Dennis Belcourt – Deputy Attorney General
CJ Manthe – Nevada Department of Business and Industry
Stephen Aichroth – Nevada Housing Division
Michael Holliday – Nevada Housing Division
Fred Eoff – Public Financial Management
Jenni Cartright - Nevada Department of Administration
Mike Willden – Governor's Office
Kendra Follett – Sherman & Howard
Marty Johnson – JNA Consulting

Agenda Item 1 – Public Comment.

No public comment in Carson City or Las Vegas.

Agenda Item 2 – For possible action – Approval of the Board of Finance minutes from the meeting held on March 13, 2018.

Controller Knecht moved to approve the minutes. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 3 – **For discussion and possible action:** Discussion and possible action on the approval of the bonding programs to be included in the Fall 2018 issuance of general obligation and refunding bonds by the State of Nevada.

- (1) Department of Administration-Capital Improvement Projects (~\$110 million)
 - (a) 2017 CIP Tranche 2 (~\$20 million)
 - (b) 2017 CIP Reno DMV Building Tranche 2 (~\$15 million)
 - (c) 2017 CIP UNR Engineering Building Tranche 1 (~\$25 million)
 - (d) 2009 Build America Bond Refunding (~\$50 million)
- (2) Department of Conservation and Natural Resources (~\$3.5 million)
 - (a) Historic Preservation Grants (~\$1 million)
 - (b) Tahoe Environmental Improvement Program (~\$2.5 million)

Ms. Chatwood presented to the Board of Finance (Board) the bonding programs to be included in the Fall 2018 issuance of general obligation and refunding bonds by the State of Nevada. Ms. Chatwood explained each of the Department of Administration-Capital Improvement Projects, which total ~\$110 million, to the Board as well as the Department of Conservation and Natural Resources projects which total ~\$3.5 million. Ms. Chatwood stated that all of the bonds were presented in the Governor's biennium budget which was approved by the Legislature and signed into law in June 2017. Ms. Chatwood explained that the bonds conform to the parameters of the State's Constitutional Debt Limitation and the General Obligation Debt Capacity and Affordability model. Ms. Chatwood stated that if the Board approves the bonding programs they will be included in the Fall 2018 general obligation securities issuance and the State Treasurer's Office will present the sale resolutions and other applicable documents to the Board at its August 2018 meeting.

Controller Knecht inquired regarding the agencies usage of the bond proceeds and questioned if the amounts that are remaining to be spent are reasonable, especially in light of the request for new monies.

Ms. Chatwood stated she has been working very closely with the agencies and she thinks the they are doing a very good job at expending their proceeds in a timely manner.

Teresa Courier moved to approve Agenda Item 3. Controller Knecht seconded the motion. Motion passed unanimously.

Agenda Item 4 – **For discussion and possible action:** Discussion and possible action on a resolution authorizing the replacement of the existing paying agent for outstanding bonds guaranteed by the State Permanent School Fund in accordance with the applicable bond resolutions if so determined by the respective School Districts and the State Treasurer; and approving any necessary amendments to the existing State Permanent School Fund Guarantee Agreements in connection with the replacement of such paying agent.

Ms. Chatwood presented and stated that the State Treasurer and the Board have approved the Guarantee of certain bonds issued by the school districts in the State of which Wells Fargo Bank, N.A. serves as the paying agent for the outstanding Guarantee Bonds as required by the State Treasurer, in accordance with the Guarantee Act. She noted that the State Treasurer's Office (STO) has determined it is in the best interest of the State and school districts to distribute a request for

proposal soliciting bids for paying agent services on the terms set forth in the bond resolutions which have previously been approved by the Board.

Ms. Chatwood explained that we do not know if we will be changing the paying agent but we're being proactive because we will complete a solicitation for qualified bidders and should the paying agent change, we want the ability to amend any of the past Guarantees to list who the new paying agent is and to also give the option to the school districts of whether they want to change to the new paying agent or retain the old. Ms. Chatwood stated that the STO is asking the Board to give the responsibility to the Treasurer to amend the Guarantee agreement to be in sync with any requirements needed should the paying agent change.

No comments or questions from the Board.

Controller Knecht moved to approve Agenda Item 4. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 5 – For discussion and possible action: Discussion and possible action regarding revisions to the State of Nevada Board of Finance and State Treasurer Debt Management Policy last amended on August 9, 2016 to update the Policy to conform to legislative and other changes in practices.

Ms. Lori Chatwood presented revisions to the State of Nevada Board of Finance and State Treasurer Debt Management Policy. Ms. Chatwood explained that consistent with best practices, the State maintains a debt management policy that sets general parameters for the issuance and maintenance of the State's debt. Pursuant to Section XIII-Review of Policy, the STO is to review the policy every two years. The STO reviewed the 2016 Policy and requests Board approval of the following revisions:

- Miscellaneous corrections to typos and formatting changes;
- Conforming references and changes to legislative actions and specifically, the addition of the Economic Development Bonds Authorization in Section V(B)(3);
- Conforming references and changes to federal policy;
- Clarifications or modifications to administrative functions and specifically, the addition of the Custodial Accounts administration procedure in Section XII(A); and
- Delegation to the State Treasurer the authority to make non-material revisions to the Policy as specified in Section XIII.

Controller Knecht stated that he would like to see a change to the verbiage used on page 50 of the packet under section A Legal Authorization in the second to the last paragraph it states "University" of Nevada System of Higher Education when the correct title is "Nevada" System of Higher Education.

Ms. Chatwood stated that she would make that change.

Teresa Courier questioned if Nevada System of Higher Education should be included under section II, paragraph A – Legal Action on page 50 of the packet.

Kendra Follett, Bond Counsel with Sherman and Howard, reviewed NRS 349.225 and stated that the NRS is applicable to the Colorado Commission and not to the Nevada System of Higher Education and is correct as stated. So, the inclusion of the Nevada System of Higher Education and the Colorado Commission within section II, paragraph A is appropriate.

Controller Knecht moved to approve Agenda Item 5. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 6 - Receive a report on the sale of the Highway Improvement Revenue (Motor Vehicle Fuel Tax) Bonds, Series 2018.

Ms. Lori Chatwood presented a report on the sale of the Highway Improvement Revenue Bonds, Series 2018 stating that in March of 2018 the Board approved the issuance of the State of Nevada Highway Revenue Bonds in a maximum aggregate amount of \$140 million. She noted that since that time, the three major credit rating agencies reaffirmed the ratings at the highest possible rating for the Highway Motor Fuel tax bonds. Ms. Chatwood stated that there was a competitive sale in May 2018 and it was well received in the market. She noted that the bonds are 20-year bonds, issued with a par of \$126 million with about \$10 million in premium and that Bank of America Merrill Lynch submitted the winning bid at a true interest cost of 3.339%. Ms. Chatwood explained that after the issuance of the 2018 bonds, the STO and the Department of Transportation (DOT) reviewed the final bonding costs for the entire project (Project Neon) as compared to the original public-private partnership (P3) model evaluated by the Board of Transportation. She noted that the results were staggering and undeniably confirmed the Transportation Board's evaluation and approval of moving this project forward with the bonding versus funding Project Neon as part of a P3 was a great benefit to the State. Ms. Chatwood explained that the bonding allowed the financing piece of the project to be completed 18 years sooner and the bonds will be paid off in fiscal year 2035 vs fiscal year 2053. In addition, over the life of the project, there is approximately a billion dollars in savings in finance costs over that time frame.

Treasurer Schwartz commented that the savings are staggering and gave praise to Ms. Chatwood and the DOT on behalf of Nevada tax payers.

Governor Sandoval thanked Treasurer Schwartz for his comments. He noted he recalls the discussions which occurred during the Transportation Board meetings in regards to the type of financing for this project which is the largest public works project in Nevada history. He noted that the project is 69% complete and the project will be completed on time and on budget. He stated that the Board of Transportation projected savings similar to the billion dollars and is glad to hear that was indeed the case. Governor Sandoval also congratulated the team and thanked Ms. Chatwood for her hard work on this project.

Controller Knecht congratulated Ms. Chatwood and asked in getting to \$986 million in nominal dollars to the present value savings of \$278 million what discount rate was used and why.

Ms. Chatwood noted that she would need to fall back on the DOT's numbers which were supplied to her. She noted she assumed DOT considered the cost of today's financing and present value to that interest rate in comparison to the length of time to the P3.

Agenda Item 7 – Receive notification of the Underwriter Pool Solicitation Selection on March 1, 2018.

Ms. Lori Chatwood presented the notification of the Underwriter Pool Solicitation Selection stating that the STO put forth a solicitation in January 2018 for both Senior Managing and Co-Managing Underwriters should the state determine to have a negotiated sale. Ms. Chatwood explained that normally the state chooses a competitive sale in the market when issuing bonds; however, there are certain circumstances, such as a specialty bond or a new revenue stream which could make the bond difficult to sell in the market. She noted that therefore, there are times when a negotiated sale is appropriate, and, in that case, it is preferred to have a pool of pre-qualified underwriters that can be called upon for assistance. She noted that during the selection process there were fourteen firms that responded to the solicitation and all were evaluated based on their experience serving as an underwriter to states and large municipalities. She noted the evaluation focused on qualifications, experience, availability of the lead personnel; coverage and commitment to the State of Nevada and its municipalities; retail and institutional distribution capabilities; and the firm's financial strength, capital position, and ability and willingness to underwrite securities. She noted that the evaluation committee selected three senior underwriting firms and five co-managing underwriting firms for the formation of the pool.

No comments or questions from Board members.

Agenda Item 8 – **For discussion and possible action:** Discussion and possible action on the Nevada Housing Division's request to approve the Findings of Fact pertaining to the issuance of up to \$20,000,000 of Multi-Unit Housing Revenue Bonds (Capistrano Pines Senior Apartments), for the purpose of acquisition and remodel of a 184-unit affordable housing rental project in Henderson, Nevada. The project owner/developer will be a limited partnership entity comprised of the Nevada HAND and the Raymond James Tax Credit Equity Fund, Inc. The Raymond James Tax Credit Equity Fund, Inc. will be the equity investor limited partner. Approval of the Board of Finance is required pursuant to NRS 319.270(4).

Mr. Aichroth presented the Nevada Housing Division's request seeking approval from the Board for the Findings of Fact pertaining to the issuance of up to \$20,000,000 of Multi-Unit Housing Revenue Bonds for the Capistrano Pines Senior Apartments. He noted that the bonds will be used to provide for the acquisition and rehabilitation of an existing 184-unit affordable senior apartment complex in Henderson, Nevada. He stated the rental housing will serve 173 tenants, at or below 60% of the area medium income, and 11 tenants at or below 30% of area medium income. Mr. Aichroth stated the 60% medium income represents a population who earn \$29,460 or less and the 30% figure represents a population who earn \$14,750 or less. He noted that the project will provide onsite resident services, which connect residents to community assistance programs and coordination of community activities. He stated that the property is currently owned by Nevada HAND and is being acquired by new ownership partnership to generate low income tax credit supporting the plan of renovation and updates to the facility. The Housing Division will be the conduit issuer on the project and there will be no liability for the repayment of the bonds for the State of Nevada. The financing proposed is a direct bond purchased by Citi Bank and the project will be structured in two phases; the construction phase and the permanent phase.

Mr. Fred Eoff provided an overview of the property and financing and noted that he anticipated the final numbers to be very similar to those noted in the Board materials.

Governor Sandoval questioned if any of the residents will be displaced during the construction phase and inquired as to whether the rental rates would remain the same. David Paul with Nevada HAND stated their goal is not to displace any residents with the rehabilitation but at worst residents would be out of the unit for only one or two days. He also affirmed that the rental rates will remain the same.

Controller Knecht asked about the differences in the financing rates in both the construction and permanent phase. He noted that the rate noted in the Board materials is the 30 day LIBOR plus 2.00% which is noted as 4.21%. He questioned if the margin is around 2.21% but noted that Mr. Eoff stated the actual rate may be around 15 basis points higher than the amount stated in the materials.

Mr. Eoff stated that he did look up the 30 day LIBOR rate today and noted that it is about 15 basis points higher than noted in the materials and noted the financing would be around 4.35% versus the 4.21%.

Controller Knecht questioned if the 15 basis points increase could be attributable to the anticipated move by the Federal Reserve to increase the overall U.S. interest rates another 25 basis points. Mr. Eoff noted that yes, the Federal Reserve's incremental increases in short-term rates is moving the 30-day LIBOR but noted that the Fed's policy has had little effect on longer-term rates which has been positive for financing.

Governor Sandoval noted that on the first page of the Findings of Fact there is an error in the title and it needs to be amended from "Desert Properties Apartments" to Capistrano Pines Senior Apartments". Mr. Aichroth stated that was a mis-print and they will correct the document.

Teresa Courier moved to approve Agenda Item 8. Controller Knecht seconded the motion. Motion passed unanimously.

Agenda Item 9 - Discussion and possible action (a) regarding the State Treasurer's quarterly investment report for the quarter ended March 31, 2018 and (b) to approve or disapprove the Treasurer's investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).

Ms. Hagan presented the overview of the current fixed income market and presented the investment performance as of March 31, 2018 for both the LGIP and General Portfolio. She noted the LGIP portfolio continues to outperformance its benchmark with a return of 1.69%, which is 5 basis points higher than its benchmark. She discussed the current composition of the General Portfolio and noted that 73% is manage in-house by the State Treasurer's staff and 27% is managed by outside managers. She stated that the outside managers managed maturities in the 3 – 5 year range and internally staff manages 1 – 2 year range. She stated that yield to maturity for the entire General Portfolio as of March 31, 2018 was 2.02%. She noted to the Board that the report uses both yield to maturity and time-weighted return to measure the performance of the General Portfolio.

Controller Knecht noted that the Treasury yield curve, most importantly the 3-month maturities tend to reflect the past 6 rate hikes; however, longer-term rates remain relatively consistent. He noted that this signals that the curve is driven more by monetary policy and without the rise in the longer-term rates it reflects less movement due to growth of the economy and more organic factors.

Treasurer Schwartz asked Ms. Hagan for a brief summary of where we stand vs. where we were. Ms. Hagan stated that generally the portfolio stays pretty consistent in terms of its asset weighted maturities; therefore, the one to two-year maturities will continue to receive the benefit of the rising rate environment. She noted that the portfolios for both LGIP and the General have seen a significant increase in yield over the past several years.

Treasurer Schwartz moved to approve Agenda Item 9. Controller Knecht seconded the motion. Motion passed unanimously.

Agenda Item 10 - Board Members' comments, including discussion of future agenda items and status of past, present and future projects or other matters within the Board's jurisdiction.

Treasurer Schwartz stated that there is clearly a housing shortage within the greater Reno area and wanted to know if the Housing Division will be able to respond to the shortage. Mr. Aichroth responded yes, it is a deepening situation in Washoe County and that the mission of the division is to elevate the shortage; however, he noted that there are currently limited resources and limited tools. He stated that the Division works as best as it can to create the most innovative solutions and explained that there are currently four projects under construction and which have been approved through this Board which will help elevate the shortage.

Agenda Item 11 – Public Comment

No public comment in Carson City or Las Vegas.

Meeting adjourned at 2:07pm.